

October 1, 2003

Honorable Don Nickles  
Chairman  
Committee on the Budget  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

In your letter of September 17, 2003, you asked whether a recent announcement by the Federal Communications Commission (FCC) would change CBO's estimate of the budgetary impact of section 626 of S. 1585, the Commerce, Justice, State appropriations bill for 2004, which would affect the disposition of certain licenses to use the electromagnetic spectrum. The FCC's announcement does change CBO's estimate of the timing of the budgetary impact of that provision. We previously estimated that enacting section 626 would increase direct spending by \$60 million in 2005, but we now estimate that this cost would be evenly split between 2004 and 2005.

Under current law, the FCC is required to use competitive bidding procedures to assign most licenses for commercial uses of the spectrum. Section 626 would exempt certain licenses—those using the 12.2-12.7 gigahertz band for terrestrial services—from that statutory requirement. The same provision was included in H.R. 1320, the Commercial Spectrum Enhancement Act, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on June 26, 2003. As explained in the enclosed cost estimate for H.R. 1320, CBO estimates that enacting that exemption would increase direct spending a total of \$60 million.

When we prepared our cost estimate of the proposed legislation, the FCC had not set an auction date for the affected spectrum. Based on information available at that time, CBO expected that the licenses for terrestrial uses of the 12.5-12.7 gigahertz band of spectrum would most likely be auctioned the

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second half of fiscal year 2004 and that auction proceeds would be recorded in 2005. As a result, we estimated that the cost of the provision, which reflects the forgone offsetting receipts from that auction, would occur in 2005.

On August 28, 2003, the FCC announced that this auction will start on January 14, 2004. We expect that some of the proceeds from the auction will be recorded in 2004 if it is held as now planned under current law. Consequently, we now estimate that exempting certain licenses from the auction process would increase net spending by \$30 million in 2004 and another \$30 million in 2005, for a total cost of \$60 million over the 2004-2005 period.

The timing of auction receipts—and hence, the timing of the cost of this provision—is affected by several factors: when an auction is held, the time it takes for the FCC to grant licenses, and the lag between issuing licenses and recording auction proceeds in the budget. According to the FCC, the agency usually tries to give bidders at least six months' notice before starting an auction so that participants can prepare the necessary financial and marketing plans. Experience with recent auctions suggests that it takes another four to five months to award the licenses after the auction closes. Offsetting receipts typically are recorded in the budget a few months after those awards. Hence, given the planned auction of the 12.2-12.7 gigahertz band in January 2004, it is likely that auction proceeds will be collected in the summer and fall of 2004.

If you wish further details on this estimate, we will be pleased to provide them. The staff contact is Kathleen Gramp.

Sincerely,

Douglas Holtz-Eakin  
Director

Enclosure: CBO Cost Estimate for H.R. 1320

cc: Honorable Kent Conrad  
Ranking Member

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Honorable Ted Stevens  
Chairman  
Senate Committee on Appropriations

Honorable Robert C. Byrd  
Ranking Minority Member

Honorable John McCain  
Chairman  
Senate Committee on Commerce,  
Science, and Transportation

Honorable Ernest F. Hollings  
Ranking Member